ANNUAL REPORT REQUIRED BY THE TECHNICAL AND MISCELLANEOUS REVENUE ACT OF 1988

I. Introduction

Section 7105 of the Technical and Miscellaneous Revenue Act of 1988 requires the Railroad Retirement Board to submit an annual report to the Congress on the financial status of the railroad unemployment insurance system. The report must contain recommendations for financing changes which might be advisable, specifically with regard to rates of employer contributions. This report meets the requirements of Section 7105 for 1997.

II. Recent Developments

The Railroad Unemployment Insurance Amendments Act of 1996 (Public Law 104-251), enacted on October 9, 1996, increased the maximum daily benefit rate, revised the formula for indexing future benefit rates, and reduced the initial waiting period. The amendments also apply an earnings test to some unemployment claims and reduce the maximum number of weeks in extended benefit periods for long service employees. Following passage, the maximum daily benefit applicable to unemployment and sickness payments increased to $42 from $36. The maximum daily benefit will increase to $43 beginning July 1, 1997, and to $44 beginning July 1, 1998. The monthly tax base increased from $850 in calendar year 1995 to $865 in 1996, and to $890 in 1997, based on increases in the railroad retirement tier I creditable base.

III. Economic and Employment Assumptions

The economic and employment assumptions used in this report correspond to those used in the report required by Section 502 of the Railroad Retirement Solvency Act of 1983. Unemployment levels are the single most significant factor affecting the financial status of the railroad unemployment insurance system. Rapidly declining employment coupled with high unemployment levels, as occurred in the early 1980's, can put the system into debt. Conversely, significant cash balances can accumulate if employment declines are moderate and unemployment levels remain low. The experience-rating system is designed to tie individual employer contribution rates to their level of benefit claims, thus adjusting the overall account balance to an appropriate level.

The three employment assumptions used, denoted A, B, and C, are shown in Table 1 at the end of the report. The projected tier I creditable limits, which determine both the railroad unemployment monthly wage base and the maximum daily benefit rate, are from the Social Security Administration's 1997 Trustees Report, intermediate set of assumptions. Table 2 shows the tier I creditable limit, unemployment monthly earnings base and daily benefit rate assumptions.

IV. Results

Projections were made for the various components of income and outgo under each employment assumption for the 11 fiscal years 1997-2007. The results are summarized in Table 3. Average employer contribution rates under the experience-rated contribution system are weighted averages based on the relative size of each railroad's payroll.

Table 3 consists of three tables, one for each employment projection A, B, and C. The tables show (1) contributions, excluding the portion allocated to the Administration Fund, (2) net benefit payments, (3) other income and outgo, (4) the cash balance in the Railroad Unemployment Insurance Account (Account) at the end of each fiscal year, (5) the loan balance, if any, including accrued interest, (6) the Account balance at the end of each fiscal year, less loans due and (7) the average employer contribution rate for each calendar year.

Under the most optimistic and the intermediate assumption, no new loans are needed to finance benefit payments during the projection period. The experience-based contribution rates generate sufficient funds to respond to the different levels and patterns of employment decline assumed. Under our pessimistic assumption, there is a short-term cash flow problem in fiscal year 1999.

The experience-rating formula is designed to keep the accrual balance of the Account, as of June 30, between $100 million and $250 million, indexed for changes in the taxable base. During the 1991-1993 phase-in to experience-based contribution rates, the balance in the Account increased. The surplus funds in the Account were used to repay the pre-October 1985 loans from the Railroad Retirement Account in their entirety on June 29, 1993. The resulting June 30, 1993, balance[1] in the Account was only slightly above $250 million. The 1994 system pooled credit was 0.22 percent, down from 5.31 percent in 1993. By June 30, 1994, the balance had dropped to $226 million, below the level that triggers a system pooled credit. The June 30, 1995 and 1996, balances were $184 million and $136 million, respectively.

The Account balance drops below $100 million in 1997. Under each employment assumption, a 1.5 percent surcharge is likely in calendar year 1998 and a 2.5 percent surcharge is likely in calendar year 1999. Under employment assumptions A and B, a 1.5 percent surcharge is likely in calendar years 2000 and 2004 and somewhat likely in calendar years 2003 and 2005. Under employment assumption B, there is also some likelihood of a 1.5 percent surcharge in calendar year 2001. Under employment assumption C, a 1.5 percent surcharge is likely in calendar years 2001, 2004 and 2005 and

[1] The balance referred to here and in the following paragraph is the accrual balance of the Account as of June 30, on which calculations of pooled credits and surcharges are based. Cash balances shown on Tables 3A-C are not used in these calculations. June 30 accrual balances are shown in Table 4.

a 2.5 percent surcharge is likely in calendar year 2000. There is also some likelihood of a 1.5 percent surcharge in calendar years 2006-2007. The highest average contribution rate needed is under employment assumption C, where it rises to 5.92 percent for calendar year 2000. This is well below the 12 percent maximum rate allowable.

Based on expected budgetary constraints, administrative expenses are assumed to decline after fiscal year 1998 and then remain level. The 0.65 percent of taxable payroll allocated to the Administration Fund is more than sufficient to finance administrative expenses. When the balance in the Administration Fund exceeds $6 million at the end of a fiscal year, excess funds are transferred to the Account early in the next fiscal year. Under all three employment assumptions, the balance in the Administration Fund exceeds $6 million at the end of each year in the 11-year projection period.

V. Recommendation

As stated in the introduction, the Congress directed the Railroad Retirement Board to make recommendations for financing changes which might be advisable, specifically with regard to rates of employer contributions.

No financing changes are recommended at this time. Projections under three different employment assumptions indicate that experience-based contribution rates will respond to fluctuating employment and unemployment levels. Even the most pessimistic assumption shows only a small, short-term cash flow problem.

Table 1: Employment Assumptions Used in 1997 Report

Calendar Year	Average Employment (thousands)		
	A	B	C
1996	256	256	256
1997	252	249	245
1998	248	241	234
1999	244	235	224
2000	240	228	215
2001	236	222	206
2002	232	215	197
2003	228	209	189
2004	225	204	181
2005	221	198	173
2006	217	193	166
2007	214	188	160

Employment assumptions A and B are based on the stability of employment in passenger service (Amtrak and commuter service) as distinguished from freight service. Employment assumption A is the most optimistic of the three assumptions. Employment assumption B is intended to provide a "moderate" assumption. Employment assumption C follows the structure of assumptions A and B, except that it has declines in passenger employment and steeper declines in freight employment than employment assumptions A and B.

Employment assumptions A and B assume passenger employment remains level at 45,000. Non-passenger employment declines at a constant annual rate (2.0 percent for assumption A and 3.5 percent for assumption B). Employment assumption C assumes that passenger employment declines by 500 each year and non-passenger employment declines at a constant rate of 5.0 percent.

Table 2: Annual Tier I Creditable Limit, Monthly RUI Taxable Limit, and Maximum Daily Benefit Rate

Calendar Year	Annual Tier I Limit	Monthly RUI Limit	Maximum Daily Benefit Rate [1]
1996	$62,700	$865	$42
1997	65,400	890	43
1998	68,100	920	44
1999	70,500	945	46
2000	72,900	970	47
2001	75,900	1,005	48
2002	78,900	1,035	50
2003	82,200	1,070	51
2004	85,800	1,110	53
2005	89,700	1,150	55
2006	93,600	1,190	57
2007	97,800	1,235	59

[1] Effective for registration periods beginning after June 30 in the calendar year. Prior to October 9, 1996, the maximum daily benefit rate was $36.

Table 3A. Progress of the Railroad Unemployment Insurance Account Under Assumption A
(Dollar Amounts in Millions)

Fiscal Year	Account Contri-butions [1]	Net Benefit Payments	Other Income and Outgo [2]	Account Cash Balance Year End	Loan Balance Year End [3]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
1997	$10.0	$83.9	$5.0	$55.8	$0.0	$55.8	1997	1.18
1998	51.4	80.0	3.4	30.6	0.0	30.6	1998	3.79
1999	111.6	75.9	4.1	70.4	0.0	70.4	1999	5.41
2000	114.4	74.4	8.6	118.9	0.0	118.9	2000	3.93
2001	64.7	71.5	9.9	122.0	0.0	122.0	2001	1.87
2002	33.3	72.1	8.9	92.1	0.0	92.1	2002	1.70
2003	48.1	73.4	7.7	74.5	0.0	74.5	2003	2.82
2004	80.2	74.0	8.0	88.6	0.0	88.6	2004	3.74
2005	91.4	75.6	9.7	114.1	0.0	114.1	2005	3.45
2006	68.5	77.3	10.9	116.2	0.0	116.2	2006	2.20
2007	51.7	78.8	10.5	99.5	0.0	99.5	2007	2.31

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] Income includes interest on investments and transfers from the Administration Fund of amounts in excess of $6 million at the end of the previous fiscal year. Outgo includes funding for the Office of Inspector General.

[3] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.

Table 3B. Progress of the Railroad Unemployment Insurance Account Under Assumption B
(Dollar Amounts in Millions)

Fiscal Year	Account Contri-butions [1]	Net Benefit Payments	Other Income and Outgo [2]	Account Cash Balance Year End	Loan Balance Year End [3]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
1997	$9.9	$83.9	$5.0	$55.7	$0.0	$55.7	1997	1.18
1998	50.1	85.3	3.0	23.5	0.0	23.5	1998	3.79
1999	109.5	85.3	2.9	50.6	0.0	50.6	1999	5.53
2000	118.2	82.9	6.4	92.2	0.0	92.2	2000	4.44
2001	85.1	79.4	7.7	105.6	0.0	105.6	2001	3.10
2002	55.9	79.0	7.4	89.9	0.0	89.9	2002	2.28
2003	55.9	79.8	6.3	72.3	0.0	72.3	2003	3.09
2004	80.6	79.2	6.0	79.6	0.0	79.6	2004	4.02
2005	91.9	79.9	7.3	98.9	0.0	98.9	2005	3.85
2006	77.0	80.9	7.9	102.9	0.0	102.9	2006	2.92
2007	60.1	81.2	7.6	89.3	0.0	89.3	2007	2.60

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] Income includes interest on investments and transfers from the Administration Fund of amounts in excess of $6 million at the end of the previous fiscal year. Outgo includes funding for the Office of Inspector General.

[3] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.

Table 3C. Progress of the Railroad Unemployment Insurance Account Under Assumption C
(Dollar Amounts in Millions)

Fiscal Year	Account Contri-butions [1]	Net Benefit Payments	Other Income and Outgo [2]	Account Cash Balance Year End	Loan Balance Year End [3]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
1997	$9.8	$83.9	$5.0	$55.6	$0.0	$55.6	1997	1.18
1998	48.8	94.0	2.4	12.8	0.0	12.8	1998	3.80
1999	107.6	99.5	13.3	34.2	12.4	21.8	1999	5.71
2000	133.4	96.0	-8.6	62.9	0.0	62.9	2000	5.92
2001	117.7	90.8	5.7	95.5	0.0	95.5	2001	4.59
2002	82.1	89.3	6.2	94.5	0.0	94.5	2002	3.20
2003	63.9	88.9	5.0	74.5	0.0	74.5	2003	3.21
2004	77.9	86.9	4.1	69.5	0.0	69.5	2004	4.37
2005	94.3	86.8	4.3	81.3	0.0	81.3	2005	4.59
2006	88.4	86.1	4.7	88.3	0.0	88.3	2006	3.94
2007	77.5	85.2	4.7	85.2	0.0	85.2	2007	3.72

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] Income includes interest on investments, transfers from the Administration Fund of amounts in excess of $6 million at the end of the previous fiscal year and loans from the Railroad Retirement Account. Outgo includes funding for the Office of Inspector General and repayment of loans, including interest.

[3] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.

Table 4. June 30 Accrual Balance of the Railroad Unemployment Insurance Account
(Dollar Amounts in Millions)

	Employment Assumption A		Employment Assumption B		Employment Assumption C	
Year	Account Balance	1.5 Percent Surcharge Threshold	Account Balance	1.5 Percent Surcharge Threshold	Account Balance	1.5 Percent Surcharge Threshold
1997	$65.2	$100.0	$65.0	$100.0	$64.7	$100.0
1998	40.0	100.0	33.1	100.0	22.8	100.0
1999	80.2	100.5	60.7	100.0	33.0	100.0
2000	127.5	101.5	101.1	100.0	72.5	100.0
2001	130.5	102.8	114.0	100.0	103.9	100.0
2002	101.7	104.6	98.8	100.0	102.9	100.0
2003	84.3	106.0	81.3	100.0	82.6	100.0
2004	99.0	108.0	89.0	100.0	77.8	100.0
2005	124.5	110.4	108.1	100.0	89.4	100.0
2006	126.8	112.4	112.2	100.5	96.1	100.0
2007	110.9	114.4	98.9	101.4	92.9	100.0

The June 30, 1996 accrual balance was $136,017,033.90

The experience rating system provides for a surcharge in the employer contribution rate when the Railroad Unemployment Insurance Account balance falls below certain thresholds. The 1.5 percent surcharge threshold is the greater of $100 million or the amount that bears the same ratio to $100 million as the system compensation base as of that June 30 bears to the system compensation base as of June 30, 1991. The 2.5 percent surcharge threshold (not shown) is indexed from a $50 million base.